

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 L-02 H-02 PA-02 PRS-01

SS-15 NSC-05 /079 W

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R 081004Z JAN 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9644

INFO AMCONSUL HONG KONG

UNCLAS SECTION 1 OF 2 MANILA 0309

HONG KONG FOR GORDON

E.O. 11652: N/A

TAGS: EFIN, RP

SUBJ: ECONOMIC CRISIS: REVIEW OF LDC BALANCE OF PAYMENTS SITUATION

REF: STATE 275634

1. EMBASSY AND USAID HAVE REVIEWED THE IMPACT ON THE PHILIPPINE ECONOMY OF THE RISING COST AND LOWERED AVAILABILITY OF ENERGY IN POST'S REPORTING, IN THE DEVELOPMENT ASSISTANCE PROGRAM RECENTLY SUBMITTED TO WASHINGTON, AND HAVE TAKEN INTO ACCOUNT THE IBRD REPORT ON THE "CURRENT ECONOMIC POSITION AND PROSPECTS OF THE PHILIPPINES" OF NOV 1974. AS THOSE SOURCES RELATE, THE PHILIPPINE ECONOMY IS SENSITIVE TO THE COST AND AVAILABILITY OF ENERGY. THE PHILIPPINES IMPORTS ALL OF ITS PETROLEUM AND OBTAINS ONLY SMALL AMOUNT OF ENERGY FROM DOMESTIC HYDRO AND COAL RESOURCES. THE ECONOMY'S GROWTH PROSPECTS ARE DEPENDENT TO A LARGE EXTENT UPON INCREASING ENERGY USE. THEY ARE ALSO AFFECTED BY THE IMPACT UPON THE COUNTRY'S TRADING PARTNERS OF RISING ENERGY COSTS, AND BY ASSOCIATED ECONOMIC DEVELOPMENTS, PARTICULARLY

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INFLATION AND RECESSION. THE GROWTH RATE OF THE

ECONOMY WAS BETWEEN EIGHT AND TEN PERCENT IN 1973 BUT
FELL TO LESS THAN SIX PERCENT IN 1974 AND WILL BE

FORTUNATE TO DO AS WELL IN 1975. THE PROSPERITY OF
THE PHILIPPINE ECONOMY IN 1973 AND EARLY 1974 FLOWED
SIGNIFICANTLY FROM HIGH PRICES FOR PHILIPPINE EXPORTS. BY
MID 1974 RISING IMPORT PRICES OF PETROLEUM AND OTHER
GOODS AND SLACKENING EXPORT DEMAND HAD BEGUN TO SLOW
THE ECONOMY'S PERFORMANCE. THE HOPES OF PHILIPPINE
OFFICIALS FOR A SEVEN PERCENT GROWTH RATE IN 1975 ARE
PREDICATED UPON INCREASED DOMESTIC DEMAND PARTICULARLY
IN THE RURAL AREAS, AN ACCELERATION OF THE PUBLIC SECTOR
INFRASTRUCTURE PROGRAM AND RECOVERY BY MID 1975 OF THE
ECONOMIES OF THE PHILIPPINES' MAJOR TRADING PARTNERS.

2. THE DIRECT BALANCE OF PAYMENTS IMPACT ON THE PHILIP-
PINE ECONOMY OF HIGHER PETROLEUM PRICES WAS MINIMAL IN
1973, ABOUT \$500 MILLION IN 1974 AND EXPECTED TO BE
MORE THAN \$500 MILLION IN 1975. THIS ADVERSE DIRECT
IMPACT IN 1974 AND 1975 WILL BE AGGRAVATED
BY THE INDIRECT EFFECTS OF CHANGES IN PETROLEUM COST
AND AVAILABILITY AND RELATED DEVELOPMENTS. HIGHER
COSTS OF OTHER IMPORTS AND REDUCED DEMAND FOR EXPORTS
ARE EXPECTED TO LEAVE THE PHILIPPINES WITH A TRADE
DEFICIT OF UP TO \$800 MILLION IN 1975. THE PHILIPPINES
HAS SOUGHT TO WEATHER THE STORM BY INCREASED FOREIGN
BORROWING PRINCIPALLY FROM PRIVATE SOURCES AND LARGELY
ON SHORT-TERM MATURITIES. ITS EXTERNAL DEBT WILL RISE
MORE THAN \$800 MILLION IN 1974 AND AT LEAST A COMPARABLE
AMOUNT IN 1975. DESPITE ITS MUCH IMPROVED ABILITY TO
OBTAIN AND SERVICE FOREIGN FINANCING THE PHILIPPINES WILL
BE COMPELLED TO CONTINUE CAREFUL MANAGEMENT OF THE
VOLUME AND STRUCTURE OF ITS EXTERNAL DEBT.

3. THE PHILIPPINES HAS NOT YET BEEN FORCED TO MAKE
MAJOR CHANGES IN ITS SHORT-TERM TRADE POLICIES BECAUSE
OF COST OF ENERGY RELATED DEVELOPMENTS. MINOR CHANGES
HAVE INCLUDED DEPRECIATION OF LESS THAN FIVE PERCENT IN
THE VALUE OF THE PESO AND THE LIFTING OF TAXES ON SOME
EXPORT ITEMS. CHANGES IN PHILIPPINE DEVELOPMENT POLICY
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INCLUDE STRONG ENCOURAGEMENT FOR BETTER AGRICULTURE
PERFORMANCE IN ORDER TO HELP CONTAIN INFLATIONARY
PRESSURE. PHILIPPINE OFFICIALS HAVE ALSO OUTLINED
POLICIES TO ENCOURAGE DEVELOPMENT OF DOMESTIC ENERGY
RESOURCES AND TO ENCOURAGE LESS ENERGY INTENSIVE MEANS TO
ECONOMIC GROWTH. IN THE ABSENCE OF A FAVORABLE TURN IN THE
EXTERNAL ECONOMIC ENVIRONMENT BY MID 1975 THE PHILIPPINES
WILL FACE A NEED TO ADJUST ITS GROWTH POLICIES TO ITS

STRAITENED CONDITION AND/OR TO OBTAIN ADDITIONAL CONCESSIONAL EXTERNAL FINANCING. IF THE PHILIPPINE GROWTH RATE WERE TO FALL SUBSTANTIALLY BELOW THE SEVEN PERCENT TARGET IT WOULD UNDOUBTEDLY WORSEN THE ECONOMIC PROSPECTS OF MOST FILIPINOS--AND COULD HAMPER THE PHILIPPINE GOVERNMENT'S EFFORTS TO IMPROVE CONDITIONS FOR THE RURAL POPULATION AND EVEN WIPE OUT SOME OF THE GAINS MADE BY THE RURAL AREAS IN 1973 AND EARLY 1974.

4. THE PHILIPPINES DEPENDS PRINCIPALLY ON SAUDI ARABIA, KUWAIT AND OTHER MIDDLE EASTERN PETROLEUM SOURCES. ALTHOUGH THE PHILIPPINES HAS WORKED OUT SUPPLY ARRANGEMENTS WITH THESE TRADITIONAL SOURCES, THE CONTINUING PHILIPPINE MUSLIM PROBLEM THREATENS THESE ARRANGEMENTS. RECENTLY, THE PHILIPPINES HAS PURCHASED PETROLEUM FROM THE PEOPLE'S REPUBLIC OF CHINA, AND IT HAS EXPECTATIONS OF EVENTUALLY GETTING SOME PETROLEUM FROM MEXICO. HOWEVER, THESE SOURCES WILL NOT REMOVE PHILIPPINE DEPENDENCE PRIMARILY ON THE MIDDLE EASTER COUNTRIES.

5. THE TABLE BELOW UPDATING PHILIPPINE BALANCE OF PAYMENTS DATA IS DRAWN PRINCIPALLY FROM THE IBRD REPORT REFERRED TO IN PARAGRAPH ONE.

PHILIPPINE BALANCE OF PAYMENTS DATA
(IN MILLIONS OF U.S. DOLLARS)

	1973 1/	1974 2/	1975 3/	
	----	-----	-----	
EXPORTS, F.O.B. 4/	1,871	2,520	3,140	
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COCONUT PRODUCTS	372	606	640	
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SUGAR PRODUCTS	295	604	990	
FOREST PRODUCTS	444	330	350	
MINERAL PRODUCTS	319	501	580	
OTHER AGRICULTURAL PRODUCTS	108	175	210	
MANUFACTURED EXPORTS	230	231	280	
NON-MONETARY GOLD	103	73	90	
IMPORTS, F.O.B. 4/	1,597	3,200	3,960	
	-----	-----	-----	
CEREALS	112	194	190	
PETROLEUM PRODUCTS	188	724	830	
OTHER CONSUMER GOODS	172	275	330	
FERTILIZER 5/	30	233	250	

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9645

INFO AMCONSUL HONGKONG

UNCLAS FINAL SECTION OF 2 MANILA 0309

HONG KONG FOR GORDON

OTHER INDUSTRIAL MATERIALS	604	983	1,360
CAPITAL GOODS	491	791	1,000
TRADE BALANCE	PLUS 274	MINUS 680	MINUS 820
NET SERVICES	MINUS 30	MINUS 40	MINUS 110
NET TRANSFERS	PLUS 231	PLUS 270	PLUS 280
CURRENT BALANCE	PLUS 475	MINUS 450	MINUS 650

DIRECT PRIVATE INVESTMENT
& SHORT-TERM TRADE FINANCE
(NET) 6/

154	280	315
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MEDIUM & LONG-TERN LOANS
(GROSS) 7/

377	380	530
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OFFICIAL ASSISTANCE 8/

124	125	180
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PRIVATE & PUBLIC COMMERCIAL
BORROWINGS

253	255	350
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AMORTIZATION (MEDIUM & LONG-
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TERM LOANS) GROSS MINUS 305 MINUS 285 MINUS 300

MEDIUM & LONG-TERM LOANS(NET) 72 95 230

OVER-ALL BALANCE 701 MINUS 75 MINUS 105

FINANCED BY: MINUS 701 PLUS 75 10/ PLUS 105 10/
CENTRAL BANK & OTHER --- ---
SHORT-TERM BORROWINGS MINUS 86 PLUS 339 PLUS 505

CHANGE IN RESERVES MINUS 594 MINUS 274 MINUS 450

IMF - OTHER MINUS 21 PLUS 10 PLUS 50

FOREIGN EXCHANGE RESERVES(GROSS)876 1,150 P/ 1,600 9/
-- --
DEBT SERVICE 11/ 440 485 570 9/
-

1/ CENTRAL BANK STATISTICS.

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2/ IBRD ESTIMATES REPORTED TO CONSULTATIVE GROUP.
-- SOME PRELIMINARY 1974 STATISTICS ARE BEING REPORTED
BY GOP. THESE WILL BE FORWARDED AS THEY BECOME
AVAILABLE BUT ARE NOT EXPECTED TO HAVE SIGNIFICANT
IMPLICATIONS FOR ENERGY CRISIS ANALYSIS.

3/ IBRD PROJECTIONS.

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4/ COMPREHENSIVE DATA ON VOLUME OF PHILIPPINE EXPORTS
-- AND IMPORTS ARE NOT AVAILABLE. MISSION ESTIMATES THAT
VOLUME INCREASE IN EXPORTS FROM 1973 TO 1974 WILL BE
IN FIVE TO TEN PERCENT RANGE AND VOLUME INCREASE IN
IMPORTS FOR SAME PERIOD IS 20 TO 30 PERCENT RANGE.

5/ U.S. MISSION ESTIMATES.

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6/ INCLUDES ERRORS AND OMISSIONS.

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7/ BREAKDOWN ON NET BASIS OF MEDIUM AND LONG-TERM LOANS

-- NOT READILY AVAILABLE. HOWEVER, PRIVATE BORROWINGS
AND PUBLIC COMMERCIAL BORROWINGS ACCOUNT FOR THE
PREDOMINANT SHARE OF PHILIPPINE SERVICE OBLIGATION
IN THE YEAR INVOLVED.

8/ OFFICIAL ASSISTANCE TO THE PHILIPPINES COMES ALMOST

-- ENTIRELY FROM THE DONOR ASSOCIATED WITH THE PHILIPPINES
CONSULTATIVE GROUP WITH THE IBRD, JAPAN, THE U.S.
AND THE ADB THE LEADING DONORS.

9/ U.S. MISSION PROJECTION.

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10/ BREAKDOWN BY FINANCING SOURCE IS U.S. MISSION ESTIMATE.

11/ EXCLUDING REPAYMENT OF IMF STANDBY CREDIT.

P/ PRELIMINARY CENTRAL BANK STATISTICS.

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